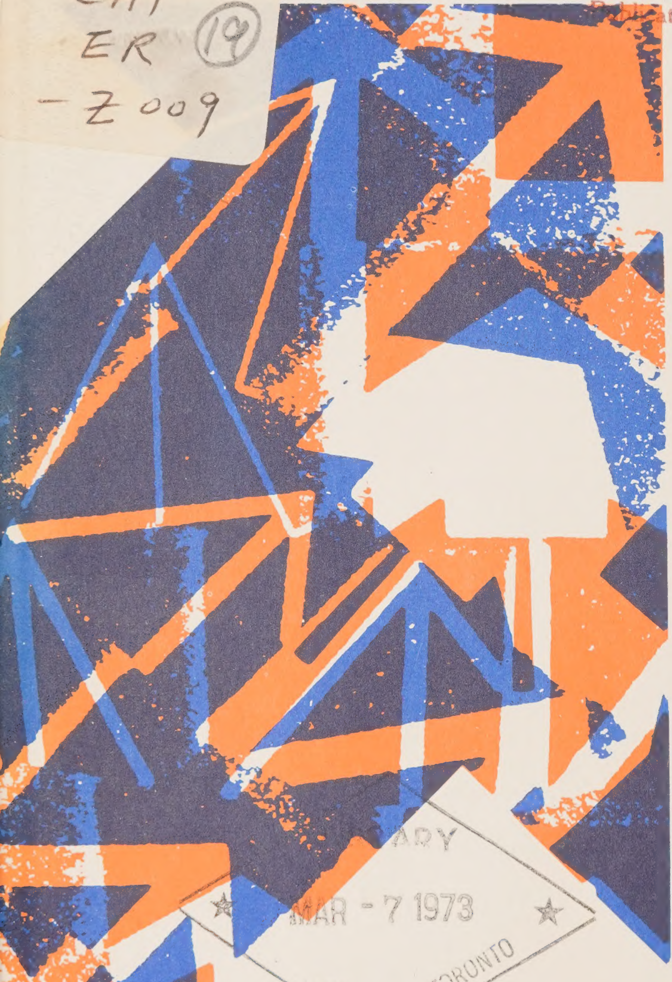
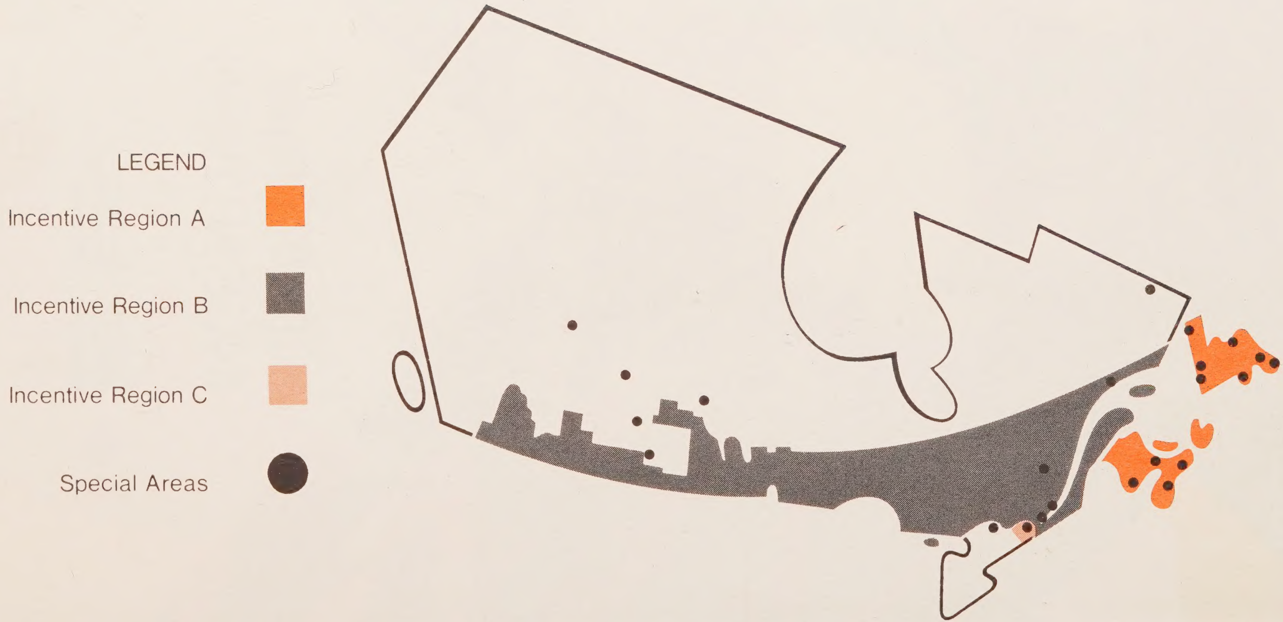


INDUSTRIAL INCENTIVES

Dept of

Regional Economic Expansion
Expansion Économique Régionale


LEGEND
Incentive Region A
Incentive Region B
Incentive Region C
Special Areas

INTRODUCTION

The Department of Regional Economic Expansion was created in April 1969 to co-ordinate and strengthen the federal effort to reduce regional economic disparities. In broad terms, the objective of the Department is to raise the level of economic opportunity in slow-growth regions as closely as possible to that existing in the rest of the country. This general objective has been translated into three specific aims: to reduce inter-regional gaps in unemployment rates; to improve labour force participation rates in the slow-growth regions; and to narrow income differentials between regions.

To achieve these aims, the Department uses a number of programs designed to stimulate industrial development and other forms of economic activity, both urban and rural, and to facilitate much-needed and complementary forms of social adjustment.

This booklet describes briefly the program of industrial incentives, the principal direct means used by this Department to encourage industrial development in slow-growth regions.

PRINCIPAL FEATURES

Under the industrial incentives program, grants are available to companies willing to locate, expand or modernize manufacturing facilities in broad regions and special areas designated by the federal government following consultation with the provincial governments. Loan guarantees are also available for such projects and, in some cases, for certain types of commercial projects.

The designated regions cover broad segments of the country. The special areas, of which there are now 23, represent more localized focal points of potential development. In general, they are eligible, not only for industrial incentives, but also for various forms of infrastructure assistance authorized under federal-provincial agreements. (See inside front cover for map of Canada showing the designated regions and special areas.)

Statutory authority for this program, as it applies in the designated regions, is to be found in the Regional Development Incentives Act (RDIA), which came into force on August 7, 1969. In the special areas, it stems from the Department of Regional Economic Expansion Act, which in 1970 superseded the Government Organization Act of 1969.

There is still some residual activity under the Area Development Incentives Act (ADIA), which was replaced by the Regional Development Incentives Act. Applications were accepted under ADIA until De-

cember 31, 1969, on the understanding that assisted projects would be in commercial production by March 31, 1971. Because of the time-lag between the start of commercial production and final payment on approved grants, some activity under ADIA is likely to continue until 1974.

INCENTIVE TYPES AND LEVELS

There are two types of RDIA incentives: grants and loan guarantees. Either or both may be offered, depending upon the circumstances, to assist projects that appear on the basis of individual analyses, to show reasonable likelihood of stability, growth and net economic benefit.

The size of an incentive grant may be varied, within statutory limits, to meet the requirements of a particular project. For a new plant or the expansion of an existing plant into new product lines, it is based on approved capital costs and (if considered appropriate) the number of jobs to be created. For a plant modernization or an expansion that does not involve a new product, only approved capital costs can be considered.

The maximum available grant depends on location and type of project, as is shown in the following table:

Location

Region A
(Atlantic Provinces)

Region B
(Standard Designated
Regions)

Region C
(Special Designated
Region – S.W. Quebec
& S.E. Ontario)

Type of Project	
Modernization or Ordinary Expansion	New Plant or New Product Expansion
30% of capital cost	35% of capital cost plus $7,000 per direct job created.
20% of capital cost	25% of capital cost plus $5,000 per direct job created.
10% of capital cost	10% of capital cost plus $2,000 per direct job created.

Maximum limits, as stipulated in the Act, are $30,000 per direct job created or one-half of the capital to be employed in the project.

Loan guarantees, which are intended to offset difficulties that investors frequently encounter in obtaining loan funds for investment in slow-growth regions, may not exceed 90 per cent of the total advances made by a lender, plus the interest involved, or 72 per cent of the total capital costs.

Eligibility

To be eligible for an RDIA incentive grant or loan guarantee, a project must involve manufacturing or processing and be located in a designated region or special area. Commercial facilities — and these must be new rather than expanded or modernized facilities — are only eligible for loan guarantees.

In addition to these basic requirements, a project must be of a certain minimum size in order to qualify either for a grant or a loan guarantee. In the case of a modernization or ordinary expansion, approved capital costs must total at least $30,000. In the case of a new plant or an expansion into new product lines, approved capital costs must normally total $60,000 or more. In order to qualify for a loan guarantee, a commercial facility must involve capital costs in excess of $2,500,000 if the intended location is Metropolitan Montreal, $500,000 if it is Quebec City or Winnipeg, and $250,000 if it is elsewhere.

Before a project can be considered eligible, the applicant must be willing to provide a specific

amount of equity capital. In the case of a new plant, this cannot be less than 20 per cent of the approved capital costs. In the case of an expansion or modernization, it cannot be less than 20 per cent of the approved capital costs and the book value of the assets of the existing facility at the time of the application. When the application is for a loan guarantee for a commercial facility, the applicant must have at least 20 per cent of equity capital.

These conditions must be met before any incentive assistance, in the form of a grant or loan guarantee, will be considered by the Department. The fact that they have been met does not, however, guarantee that assistance will be provided. The Department must, in addition, be satisfied that the project will make a significant contribution to economic development and social adjustment in the designated region or special area where it is to be located. It must also be satisfied that the project is unlikely to go forward in the intended location without such assistance.

- capital costs;
- jobs to be created (in each of the three years after commercial production is achieved);
- profitability;
- sources and methods of financing;
- sources and availability of machinery, equipment and raw materials;
- character and size of markets;
- quality of management;
- possible environmental effects.

Analysis of the relevant information is designed to determine whether the proposed project is eligible, whether it stands a good chance of achieving long-term viability, what net economic and social benefits it is likely to offer to the area concerned and the country as a whole, and whether it really requires assistance in order to proceed. If the evaluation to this point is positive, attention then turns to the appropriate form and level of assistance that should be offered. Judgements are based on several considerations, including a comparison between the prospective rate of return on investment in the proposed location and that in other possible locations.

Each evaluation decision results in a letter of offer or rejection. A letter containing an offer of incentive assistance always sets forth a number of conditions, based on provisions in the governing statute or regulations. It may also spell out one or more special conditions resulting from the evaluation that has been made. Where special conditions are included, they

are normally designed to provide additional assurance of viability or to enhance the expected net economic and social benefit.

Inspection and Payment

If an offer is not accepted within 90 days, it automatically lapses. If it is accepted, the case concerned moves into the inspection stage (unless it involves only a loan guarantee).

The process of inspection is the basis for approving payment of an incentive grant. It is designed to ensure that a given project does, in fact, meet the requirements of the law and regulations and the conditions of the offer of assistance which was made.

Once assigned to a case, an inspecting officer keeps in close touch with the company concerned. He follows the progress of the project and accumulates required information, including a properly completed schedule of anticipated capital costs. When the project in question is legally in commercial production, and when at least half of the assets on which the offer was based have been in continuous operation for at least 30 days — he makes a thorough on-site inspection. As a minimum, he examines: general ledger accounts, fixed asset control accounts, payment procedures, labour and wage records, accounts receivable and payable, invoices, and the location and operating condition of physical assets. In addition, he examines the equity status of the company, its insurance coverage and credit position, and its marketing and sales policies.

When his inspection is completed, the officer makes a report of his findings and a recommendation concerning the appropriate amount of the first payment, which may be less but never more than 80 per cent of the incentive offered. This assessment and recommendation are also subjected to two levels of review before any payment is made.

Final payment, which requires at least one more thorough on-site inspection, must be made within a specified maximum period after the date on which commercial production is achieved: 30 months in the case of a grant based on capital costs only; 42 months in the case of a grant based on both capital costs and jobs to be created.

During the period between the first and the final payment, the inspecting officer makes every effort to monitor the progress of the project, to ensure that the requirements of the law and the governing offer are being met. He also stands ready to assist the company concerned with such advice as may be needed to ensure that the project is successful.

RESULTS

The first application for an incentive grant under RDIA was received on August 12, 1969. Between that date and May 31, 1972, some 5,554 applications were received under RDIA and the related special areas legislation.

On May 31, 1972, the total number of net accepted offers was 1,505. These offers related to projects involving total approved capital costs of about $ 1,288 million and anticipated direct employment of about 62,627. Incentive commitments totalled $263.1 million, which averages approximately $4,190 for each direct job to be created. A provincial breakdown of data relating to the total of net accepted offers appears overleaf.

Experience with the loan guarantee element of the program is quite limited, because it took effect (as a result of an amendment to the Act in December 1970) well after the basic program was under way. As of May 31, 1972, only seven offers of loan guarantees had been accepted.

It is worth noting that the number of direct jobs anticipated, as a result of accepted offers of incentive grants, does not include employment to be saved by incentive assistance offered for the modernization of facilities. Moreover, the "anticipated employment" figures make no allowance either for off-site jobs related to assisted projects, or for the indirect or "multiplier" effects on employment in other sectors of the economy, although economists are generally agreed that these effects are significant.

DISTRIBUTION BY PROVINCE OF NET ACCEPTED OFFERS OF INCENTIVE GRANTS UNDER THE REGIONAL DEVELOPMENT INCENTIVES ACT FROM ITS INCEPTION UNTIL MAY 31, 1972

	1 *Net Accepted Offers*	*Amount of Offered Incentives*
		$ (000's)
Newfoundland	54	7,393
Nova Scotia	95	36,500
Prince Edward Island	28	2,186
New Brunswick	107	23,758
Quebec	867	122,618
Ontario	92	24,061
Manitoba	152	16,247
Saskatchewan	41	6,814
Alberta	40	19,952
British Columbia	29	3,605
TOTAL	1,505	263,134

1 Net Accepted Offers: the total of offers made and accepted less those subsequently declined or withdrawn.

2 *Total Approved Capital Costs*	*Anticipated Employment Involved*
$ (000's)	
19,467	1,992
174,742	4,947
6,176	665
55,971	4,667
689,734	35,962
119,974	4,413
57,445	4,989
28,953	1,909
120,193	1,992
15,852	1,091
1,288,507	62,627

2 Total Approved Capital Costs: the capital costs for buildings, machinery and equipment eligible under the program.

There has been some public interest in the relationship between "employment anticipated" at the time when incentive assistance is offered and "employment actually realized" at the later time when assisted projects have had a chance to get into production. In this connection, the results of a recent survey of new facilities assisted under the old ADIA program are encouraging. They indicate that, although some projects exceeded and others fell short of expectations, the difference between total anticipated employment and total actual employment was less than two per cent. There is reason to believe, then, that the current figures on jobs to be created should prove to be reliable.

In any event, there is no doubt that assistance provided under the incentive program is helping the slow-growth regions of the country to realize their potential for industrial development and, in doing so, is providing Canadians in these regions with employment opportunities that would not otherwise exist.

More detailed information on this program and how to apply for its benefits may be obtained from any of the Department's offices listed on the inside back cover.

HEADQUARTERS AND REGIONAL OFFICES DEPARTMENT OF REGIONAL ECONOMIC EXPANSION

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HALIFAX, N.S.

Director
364 York Street
FREDERICTON, N.B.

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Dominion Building
CHARLOTTETOWN, P.E.I.

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220 Grande Allée E.
QUEBEC, P.Q.

Director (Montreal)
Place Victoria, 43rd Floor
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REGINA, Sask.

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Director
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